



COMBINED FINANCIAL STATEMENTS AND  
OTHER FINANCIAL INFORMATION

Associated Catholic Charities, Inc. and Affiliated  
Organizations  
Years Ended June 30, 2009 and 2008  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Associated Catholic Charities, Inc. and Affiliated Organizations  
Combined Financial Statements and Other Financial Information

Years Ended June 30, 2009 and 2008

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## Report of Independent Auditors

Board of Directors,  
Associated Catholic Charities, Inc.

We have audited the accompanying combined statements of financial position of Associated Catholic Charities, Inc. and affiliated organizations (the "Organization") as of June 30, 2009 and 2008, and the related combined statements of activities, cash flows and program operating expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Organization's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Associated Catholic Charities, Inc. and affiliated organizations at June 30, 2009 and 2008, and the combined changes in their net assets and their cash flows and program operating expenses for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The information on page 27 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

*Ernst & Young LLP*

October 29, 2009

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Combined Statements of Financial Position

|   | June 30               |                       |
|---|-----------------------|-----------------------|
|   | 2009                  | 2008                  |
| <b>ASSETS</b>   |                       |                       |
| Cash and cash equivalents   | \$ 6,013,658          | \$ 13,048,705         |
| Restricted cash   | 1,866,987             | 1,625,643             |
| Accounts receivable, less allowance for doubtful accounts<br>(2009 - \$659,400; 2008 - \$514,515) | 12,917,158            | 10,706,097            |
| Capital Campaign pledges and grants receivable, net   | 3,124,499             | 5,687,041             |
| Prepaid expenses and other assets   | 1,611,708             | 1,590,835             |
|   | <u>25,534,010</u>     | <u>32,658,321</u>     |
| Investments, at fair value  |                       |                       |
| Board Designated Funds:   |                       |                       |
| Henry J. and Marion I. Knott Catholic Community Fund  | 3,166,283             | 3,944,232             |
| Jenkins Memorial Fund   | 3,748,243             | 6,126,399             |
| Consolidated Fund   | 6,225,366             | 8,387,527             |
| Mustard Seed Fund   | 6,074,867             | 7,458,289             |
| Other   | 4,075,287             | 4,234,452             |
|   | <u>23,290,046</u>     | <u>30,150,899</u>     |
| Restricted Funds:   |                       |                       |
| The Children's Fund   | 5,174,940             | 6,129,105             |
| Jenkins Memorial Fund   | 2,214,434             | 2,568,315             |
| Consolidated Fund   | 6,042,978             | 5,493,108             |
| Poor, Hungry and Homeless Fund  | 13,764,923            | 10,044,458            |
| Other   | 1,272,493             | 1,210,357             |
|   | <u>28,469,768</u>     | <u>25,445,343</u>     |
| HUD reserves  | 2,828,619             | 2,787,882             |
|   | <u>54,588,433</u>     | <u>58,384,124</u>     |
| Total investments   |                       |                       |
| Land, buildings and equipment, net  | 155,078,862           | 145,373,917           |
| <b>Total assets</b>   | <b>\$ 235,201,305</b> | <b>\$ 236,416,362</b> |
| <b>LIABILITIES AND NET ASSETS</b>   |                       |                       |
| Accounts payable  | \$ 4,060,395          | \$ 3,623,169          |
| Accrued interest  | 780,205               | 625,170               |
| Accrued salaries and benefits   | 12,722,047            | 11,750,043            |
| Notes payable   | 5,988,603             | 3,415,203             |
| Deferred income   | 6,063,559             | 5,813,787             |
| Other   | 2,385,585             | 3,066,582             |
| Mortgages and bonds payable   | 124,542,758           | 118,095,599           |
| <b>Total liabilities</b>  | <b>156,543,152</b>    | <b>146,389,553</b>    |
| <b>MINORITY INTEREST</b>  | <b>1,123,866</b>      | <b>1,473,447</b>      |
| <b>NET ASSETS</b>   |                       |                       |
| Unrestricted  | \$ 45,194,853         | \$ 50,995,979         |
| Temporarily restricted  | 29,606,888            | 34,824,837            |
| Permanently restricted  | 2,732,546             | 2,732,546             |
| <b>Total net assets</b>   | <b>77,534,287</b>     | <b>88,553,362</b>     |
| <b>Total liabilities, minority interest and net assets</b>  | <b>\$ 235,201,305</b> | <b>\$ 236,416,362</b> |

See accompanying notes

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Combined Statements of Activities

**For the Year Ended June 30, 2009**

|   | <b>Unrestricted</b>  | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>         |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <b>Revenues and Support</b>   |                      |                                   |                                   |                      |
| Purchase of services by governmental agencies   | \$ 92,250,767        | \$ -                              | \$ -                              | \$ 92,250,767        |
| Purchase of services - other  | 968,518              | -                                 | -                                 | 968,518              |
| Program service fees  | 8,745,260            | -                                 | -                                 | 8,745,260            |
| United Way  | 2,045,308            | -                                 | -                                 | 2,045,308            |
| Contributions, fundraising and donated goods and services   | 7,026,034            | 2,693,783                         | -                                 | 9,719,817            |
| Rental income   | 5,294,138            | -                                 | -                                 | 5,294,138            |
| Other   | 350,840              | -                                 | -                                 | 350,840              |
| Net assets released from restrictions   | 3,745,390            | (3,745,390)                       | -                                 | -                    |
| Total revenues and support  | 120,426,255          | (1,051,607)                       | -                                 | 119,374,648          |
| <b>Program Operating Expenses</b>   |                      |                                   |                                   |                      |
| Child and Family Services   | 52,427,750           | -                                 | -                                 | 52,427,750           |
| Lifetime Services   | 37,080,228           | -                                 | -                                 | 37,080,228           |
| Community Services  | 11,943,790           | -                                 | -                                 | 11,943,790           |
| Housing Services  | 13,701,296           | -                                 | -                                 | 13,701,296           |
| Management and General  | 14,269,441           | -                                 | -                                 | 14,269,441           |
| Total expenses  | 129,422,505          | -                                 | -                                 | 129,422,505          |
| <b>Results of Operations</b>  | (8,996,250)          | (1,051,607)                       | -                                 | (10,047,857)         |
| <b>Nonoperating Activity</b>  |                      |                                   |                                   |                      |
| Grants, gifts, legacies and bequests  | 2,216,542            | 1,772,759                         | -                                 | 3,989,301            |
| Capital Campaign, net   | 550,050              | 150,350                           | -                                 | 700,400              |
| Investment income, net (including net unrealized losses:<br>2009 - \$3,729,958; 2008 - \$6,906,237) | (3,752,006)          | (2,166,274)                       | -                                 | (5,918,280)          |
| Other, net  | (91,973)             | -                                 | -                                 | (91,973)             |
| Net assets released from restrictions   | 3,923,177            | (3,923,177)                       | -                                 | -                    |
| Total Nonoperating Activity   | 2,845,790            | (4,166,342)                       | -                                 | (1,320,552)          |
| <b>Minority Interest</b>  | 349,334              | -                                 | -                                 | 349,334              |
| <b>Change in net assets</b>   | (5,801,126)          | (5,217,949)                       | -                                 | (11,019,075)         |
| Net assets at beginning of year   | 50,995,979           | 34,824,837                        | 2,732,546                         | 88,553,362           |
| <b>Net assets at end of year</b>  | <u>\$ 45,194,853</u> | <u>\$ 29,606,888</u>              | <u>\$ 2,732,546</u>               | <u>\$ 77,534,287</u> |

*See accompanying notes.*

**Year Ended June 30, 2008**

| <b>Unrestricted</b>  | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>         |
|----------------------|-----------------------------------|-----------------------------------|----------------------|
| \$ 88,563,658        | \$ -                              | \$ -                              | \$ 88,563,658        |
| 1,319,485            | -                                 | -                                 | 1,319,485            |
| 8,704,866            | -                                 | -                                 | 8,704,866            |
| 2,332,580            | -                                 | -                                 | 2,332,580            |
| 6,292,266            | 2,831,238                         | -                                 | 9,123,504            |
| 5,273,393            | -                                 | -                                 | 5,273,393            |
| 504,863              | -                                 | -                                 | 504,863              |
| 4,289,316            | (4,289,316)                       | -                                 | -                    |
| 117,280,427          | (1,458,078)                       | -                                 | 115,822,349          |
| 52,358,010           | -                                 | -                                 | 52,358,010           |
| 35,007,518           | -                                 | -                                 | 35,007,518           |
| 11,422,587           | -                                 | -                                 | 11,422,587           |
| 13,285,866           | -                                 | -                                 | 13,285,866           |
| 13,546,110           | -                                 | -                                 | 13,546,110           |
| 125,620,091          | -                                 | -                                 | 125,620,091          |
| (8,339,664)          | (1,458,078)                       | -                                 | (9,797,742)          |
| 1,450,851            | 443,284                           | 500,000                           | 2,394,135            |
| 3,449,950            | 373,240                           | -                                 | 3,823,190            |
| (2,735,024)          | (1,706,387)                       | -                                 | (4,441,411)          |
| (300,041)            | -                                 | -                                 | (300,041)            |
| 3,366,257            | (3,366,257)                       | -                                 | -                    |
| 5,231,993            | (4,256,120)                       | 500,000                           | 1,475,873            |
| 313,666              | -                                 | -                                 | 313,666              |
| (2,794,005)          | (5,714,198)                       | 500,000                           | (8,008,203)          |
| 53,789,984           | 40,539,035                        | 2,232,546                         | 96,561,565           |
| <u>\$ 50,995,979</u> | <u>\$ 34,824,837</u>              | <u>\$ 2,732,546</u>               | <u>\$ 88,553,362</u> |

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Combined Statements of Cash Flows

|   | <b>Year Ended June 30</b> |                       |
|---|---------------------------|-----------------------|
|   | <b>2009</b>               | <b>2008</b>           |
| <b>Operating activities</b>   |                           |                       |
| Change in net assets  | <b>\$(11,019,075)</b>     | <b>\$ (8,008,203)</b> |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                           |                       |
| Depreciation and amortization   | 7,098,432                 | 6,855,656             |
| Change in fair value of interest rate swaps   | (144,484)                 | 155,359               |
| Unrealized losses on investments, net   | 3,729,958                 | 6,906,237             |
| Deferred interest expense   | 191,182                   | 212,116               |
| Gain on disposal of fixed assets  | (75,379)                  | (139,829)             |
| Loss (gain) on sale of investments, net   | 3,527,829                 | (553,252)             |
| Amortization of pledges   | (168,205)                 | (292,102)             |
| Forgiveness of debt   | (65,325)                  | (65,325)              |
| Contributions restricted for long-term investment   | (1,248,866)               | (773,288)             |
| Change in minority interest   | (349,581)                 | (318,657)             |
| Change in accounts receivable, net  | (2,211,061)               | 324,530               |
| Change in prepaid expenses and other assets   | (53,727)                  | 114,044               |
| Change in accounts payable and accrued expenses   | 1,494,230                 | (1,281,107)           |
| Change in deferred income   | 249,772                   | (499,995)             |
| Change in other liabilities   | (668,594)                 | (221,222)             |
| <b>Net cash provided by operating activities</b>  | <b>287,106</b>            | <b>2,414,962</b>      |
| <b>Investing activities</b>   |                           |                       |
| Change in restricted cash   | (241,344)                 | 450,442               |
| Purchase of land, buildings and equipment   | (16,708,550)              | (7,616,531)           |
| Proceeds from the sale of land, buildings and equipment                                     | 145,486                   | 2,347,093             |
| Purchase of investment securities   | (54,837,812)              | (53,879,103)          |
| Proceeds from sales and maturities of investment securities                                 | 51,375,716                | 54,478,725            |
| <b>Net cash used in investing activities</b>  | <b>(20,266,504)</b>       | <b>(4,219,374)</b>    |
| <b>Financing activities</b>   |                           |                       |
| Change in pledges receivable  | 2,730,747                 | 3,257,997             |
| Contributions restricted for long-term investment   | 1,248,866                 | 773,288               |
| Proceeds from notes, mortgages and bonds payable  | 10,587,685                | 3,046,879             |
| Repayment of notes, mortgages and bonds payable   | (1,622,947)               | (1,988,552)           |
| <b>Net cash provided by financing activities</b>  | <b>12,944,351</b>         | <b>5,089,612</b>      |
| <b>(Decrease) increase in cash and cash equivalents</b>                                     | <b>(7,035,047)</b>        | <b>3,285,200</b>      |
| Cash and cash equivalents at beginning of year  | 13,048,705                | 9,763,505             |
| <b>Cash and cash equivalents at end of year</b>   | <b>\$ 6,013,658</b>       | <b>\$ 13,048,705</b>  |

See accompanying notes.

Associated Catholic Charities, Inc. and Affiliated Organizations

Combined Statements of Program Operating Expenses

For the Year Ended June 30, 2009

|  | Child and<br>Family<br>Services | Lifetime<br>Services        | Community<br>Services       |
|--|---------------------------------|-----------------------------|-----------------------------|
| Salaries                                 | \$ 31,203,997                   | \$ 20,023,155               | \$ 5,231,480                |
| Employee Benefits and<br>Payroll Taxes   | <u>8,539,797</u>                | <u>5,815,777</u>            | <u>1,477,981</u>            |
| Total Employee Compensation              | 39,743,794                      | 25,838,932                  | 6,709,461                   |
| Professional Fees and Services           | 1,365,650                       | 2,843,811                   | 267,298                     |
| Supplies                                 | 1,606,077                       | 1,696,942                   | 559,466                     |
| Occupancy                                | 2,516,044                       | 1,287,026                   | 994,734                     |
| Transportation                           | 557,106                         | 886,934                     | 165,246                     |
| Assistance to Individuals                | 1,979,987                       | 32,671                      | 748,136                     |
| Liability and Property Insurance         | 721,995                         | 423,293                     | 170,044                     |
| Repairs and Maintenance                  | 1,188,466                       | 904,035                     | 651,454                     |
| Meetings, Conferences, Seminars and Dues | 301,983                         | 143,368                     | 37,929                      |
| Postage, Printing and Publications       | 139,792                         | 102,912                     | 82,124                      |
| Provision for Bad Debts                  | 192,293                         | 163,481                     | 145,958                     |
| Interest Expense                         | 507,489                         | 741,947                     | 116,651                     |
| Depreciation                             | 1,431,353                       | 1,524,755                   | 1,194,895                   |
| Other                                    | <u>175,721</u>                  | <u>490,121</u>              | <u>100,394</u>              |
| <b>Total Program Expenses</b>            | <b><u>\$ 52,427,750</u></b>     | <b><u>\$ 37,080,228</u></b> | <b><u>\$ 11,943,790</u></b> |

See accompanying notes

| <b>Housing<br/>Services</b> | <b>Management and<br/>General</b> | <b>Total Expenses<br/>06/30/2009</b> | <b>Total Expenses<br/>06/30/2008</b> |
|-----------------------------|-----------------------------------|--------------------------------------|--------------------------------------|
| \$ 3,432,290                | \$ 8,260,579                      | \$ 68,151,501                        | \$ 65,552,930                        |
| <u>1,059,938</u>            | <u>2,054,688</u>                  | <u>18,948,181</u>                    | <u>17,789,151</u>                    |
| 4,492,228                   | 10,315,267                        | 87,099,682                           | 83,342,081                           |
| 850,362                     | 1,187,114                         | 6,514,235                            | 7,328,278                            |
| 432,357                     | 109,296                           | 4,404,138                            | 4,150,319                            |
| 2,146,389                   | 1,042,323                         | 7,986,516                            | 7,698,004                            |
| 7,043                       | 54,875                            | 1,671,204                            | 1,773,338                            |
| -                           | 6,464                             | 2,767,258                            | 2,701,238                            |
| 232,067                     | 170,572                           | 1,717,971                            | 1,527,624                            |
| 1,437,607                   | 404,643                           | 4,586,205                            | 4,241,030                            |
| 38,497                      | 229,072                           | 750,849                              | 940,962                              |
| 59,489                      | 495,402                           | 879,719                              | 942,380                              |
| 18,937                      | -                                 | 520,669                              | 379,660                              |
| 1,270,951                   | (219,923)                         | 2,417,115                            | 2,986,506                            |
| 2,565,985                   | 216,510                           | 6,933,498                            | 6,588,202                            |
| <u>149,384</u>              | <u>257,826</u>                    | <u>1,173,446</u>                     | <u>1,020,469</u>                     |
| <b><u>\$ 13,701,296</u></b> | <b><u>\$ 14,269,441</u></b>       | <b><u>\$ 129,422,505</u></b>         | <b><u>\$ 125,620,091</u></b>         |

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements

June 30, 2009

### 1. Organization and Significant Accounting Policies

The significant accounting principles and policies followed by Associated Catholic Charities, Inc., and its affiliated organizations (*Catholic Charities or the Organization*) are summarized below:

**Organization:** Associated Catholic Charities, Inc. is a nonprofit human services agency that provides services to children and families, the elderly, the disadvantaged, and people with developmental disabilities. Catholic Charities operates more than 80 programs in the city of Baltimore and nine Maryland counties.

**Affiliated Organizations:** The combined financial statements include all organizations operating under the auspices of Associated Catholic Charities, Inc., including Catholic Charities Housing, Inc. (*Basilica Place*), DePaul House, Inc., Bethany Community Inc., St. Charles House, Inc., Backbone Housing, Inc. (*Starner Hill*), Coursey Station Apartments, Inc., St. Luke's Apartments, Inc., St. Mark's Housing, Inc., St. Mark's Limited Partnership, St. Joachim, Inc., Trinity House Apartments, Inc., Jenkins Memorial Nursing Home, Inc. (*St. Elizabeth's*), The Children's Fund, Inc., Cherry Hill Town Center, Inc., 661 Corporation, Hollins Ferry Road Apartments, Inc., Hollins Ferry Senior Housing Limited Partnership, Belair Senior Housing, Inc., Belair Limited Partnership, Odenton Senior Housing, Inc., Glen Burnie Senior Housing, Inc., Reisterstown Village Senior Housing, Inc., Reisterstown Gardens Senior Housing, Inc., Owings Mills Senior Housing, Inc., Aberdeen Senior Housing, Inc., Woodlawn Senior Housing, Inc., Abingdon Senior Housing, Inc., Odenton Senior Housing II, Inc., and OLF Senior Housing, Inc.

All significant intercompany accounts and transactions have been eliminated. All of the combined organizations operate under the control of the Roman Catholic Archbishop of Baltimore.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgements that affect the reported amount of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents:** Catholic Charities considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Restricted Cash:** Restricted cash represents cash held whose use is specifically restricted for various purposes including client funds, tenant security deposits, construction and certain reserves for replacements.

**Investments:** Investments are carried at fair value, and realized and unrealized gains and losses are reflected in the statement of activities.

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

**Concentration of Risk:** Financial instruments which potentially subject Catholic Charities to concentrations of investment risk include cash and temporary investments, and investments in debt and equity securities. Catholic Charities places its cash and temporary investments with creditworthy, high quality financial institutions. Its Investment Policy is overseen by an Investment Committee of the Board of Directors. Members of the Investment Committee are experienced in investment and financial management. Though the market value of investments is subject to fluctuations on a year to year basis, Catholic Charities believes that its Investment Policy is prudent for the long-term welfare of the Organization. Recent negative conditions in the global credit markets could affect the market value of the Organization's investments. Based on our ability to access cash and other short-term investments, we do not anticipate having to sell these investments below par value in order to operate our business in the foreseeable future. In the event we need or desire to immediately access these funds, we may incur a loss on these investments.

Credit risk with respect to accounts receivable is limited due to the number and credit worthiness of the government entities and organizations from whom the amounts are due.

**Land, Buildings and Equipment:** Land, buildings and equipment include properties intended for ongoing use in operations and are valued at cost. Depreciation is computed using the straight-line method over the estimated useful lives, which range from 25 to 40 years for buildings and 3 to 20 years for equipment.

**Purchase of Services by Governmental Agencies:** Purchase of services income is recognized under the accrual basis of accounting in accordance with the contractual terms of the purchase of service agreements with governmental agencies. Services provided by Catholic Charities under these agreements consist primarily of the operation of residential care facilities to provide the basic care, health, social service and special education needs of physically handicapped, mentally disturbed, neglected, dependent or abused children and mentally handicapped children and adults. In addition, Catholic Charities operates extended-care facilities, a nursing home, senior housing facilities for the aging, and early education, child development and intervention services for low-income children and their families.

**Program Service Fees:** Program service fees are fees charged primarily to facility residents and program participants for the cost of care and services rendered that are not funded by a governmental agency assistance program or collected from third-party payers pursuant to the cost reimbursement methodology in effect for eligible participants.

**Contributions and Capital Campaign Pledges and Grants Receivable:** All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires or the restricted funds are expended for their intended purpose, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### **Contributions and Capital Campaign Pledges and Grants Receivable (continued):**

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Capital Campaign pledges and grants receivable consist of the following at June 30:

|   | <b>2009</b>         | <b>2008</b>         |
|---|---------------------|---------------------|
| Capital Campaign pledges and grants receivable, gross | \$ 3,351,299        | \$ 6,127,664        |
| Less: Unamortized discount                            | (215,418)           | (383,623)           |
| Allowance for doubtful pledges                        | (11,382)            | (57,000)            |
| Capital Campaign pledges and grants receivable, net   | <u>\$ 3,124,499</u> | <u>\$ 5,687,041</u> |

Capital Campaign pledges and grants receivable consists of amounts due in:

|                      | <b>2009</b>         | <b>2008</b>         |
|----------------------|---------------------|---------------------|
| Less than one year   | \$ 927,176          | \$ 3,654,358        |
| One to five years    | 2,419,123           | 2,463,306           |
| More than five years | 5,000               | 10,000              |
| Total                | <u>\$ 3,351,299</u> | <u>\$ 6,127,664</u> |

**Donated Goods and Services:** Donated goods and certain contributions of services are recorded at their estimated fair values on the date of contribution. Contributions of services are recognized as revenue if the services received create or enhance non-financial assets or are performed by individuals requiring specialized skills.

Catholic Charities receives a significant amount of volunteer services in conjunction with its mission which do not meet the above criteria for recognition in the financial statements. Accordingly, the value of these services has not been determined.

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

**Rental Income:** Rental income is recognized by the operating method whereby rent received is recognized as income in the month to which it applies. Prepayments by residents are deferred and applied to subsequent months as appropriate. Substantially all residents qualify for resident housing assistance funds under Section 8 of the National Housing Act as administered by the U.S. Department of Housing and Urban Development (*HUD*) or qualify for government-funded rent subsidy payments. Resident housing assistance funds are recorded in purchase of services by governmental agencies.

**Non-operating Activity:** Non-operating activity primarily consists of gifts, legacies and bequests, capital campaign contributions, grants received for capital acquisitions, and investment income.

**Income Taxes:** As a charitable and religious organization, Catholic Charities, except for St. Mark's Housing, Inc., St. Mark's Limited Partnership, Hollins Ferry Road Apartments, Inc., Hollins Ferry Senior Housing Limited Partnership, Belair Senior Housing, Inc. and Belair Limited Partnership, is exempt from income taxes under the provisions of section 501(c)(3) of the Internal Revenue Code. As an affiliate of the Archdiocese of Baltimore, Catholic Charities is included in the Official Catholic Directory. St. Mark's Housing, Inc., St. Mark's Limited Partnership, Hollins Ferry Road Apartments, Inc., Hollins Ferry Senior Housing Limited Partnership, Belair Senior Housing, Inc. and Belair Limited Partnership are taxable entities. No provision for income taxes was required in 2009 and 2008.

On July 1, 2007, the Organization adopted FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. The impact of the adoption of FIN 48 on the Organization's financial statements was not significant. FIN 48 creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of FIN 48, tax-exempt organizations could now be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. Prior to FIN 48, the determination of when to record a liability for a tax exposure was based on whether a liability was considered probable and reasonably estimable in accordance with FASB Statement No. 5, *Accounting for Contingencies*.

**Interest Rate Swaps:** Catholic Charities has entered into interest rate swap agreements to protect against interest rate risks associated with certain variable rate debt. The fair value of swap agreements is recorded in the statements of financial position. The gain or loss resulting from changes in fair value of these instruments is recognized currently as a change in net assets.

**Recently Adopted Accounting Standards:** In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* (Statement 157), which provides guidance for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. Statement 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and accordingly, Statement 157 does not require any new fair value measurements. In February 2008, the FASB partially deferred the

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### **Recently Adopted Accounting Standards (continued):**

effective date of Statement 157 for certain non-financial assets and liabilities that are recognized or disclosed at fair value until fiscal years beginning after November 15, 2008. The Organization adopted Statement 157 for its financial assets and liabilities effective as of July 1, 2008. The adoption of Statement 157 did not have a material effect on the Organization's combined financial statements. See Note 6 for additional disclosures.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* (Statement 159). The standard allows entities to choose to measure many financial assets and financial liabilities (as well as certain non-financial instruments that are similar to financial instruments) at fair value (the "fair value option"). Statement 159 is effective for fiscal years beginning after November 15, 2007. The Organization adopted Statement 159 effective as of July 1, 2008. Catholic Charities did not elect the fair value option for any financial assets or liabilities and therefore, adoption of Statement 159 did not have a material effect on its combined financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (Statement 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, Statement 165 sets forth (i) the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Statement 165 is effective for fiscal years ending after June 15, 2009. The Organization adopted Statement 165 effective for the year ended June 30, 2009. As required by Statement 165, the Organization performed an evaluation of subsequent events through October 29, 2009, the date the financial statements were available to be issued.

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. In April 2009, the State of Maryland adopted UPMIFA. The Organization adopted FSP FAS 117-1 effective as of July 1, 2008. See Note 7 for additional disclosures required by FSP FAS 117-1.

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### Accounting Principles Issued But Not Yet Adopted

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 (Statement 161), which provides disclosure requirements for derivative instruments and hedging activities and applies to all derivative instruments, and related hedged items accounted for under Statement 133. It amends and expands the previous disclosure requirements of Statement 133. Statement 161 is effective for fiscal years beginning after November 15, 2008, with early application encouraged. The Organization is currently evaluating what effect, if any, adoption of the provisions of Statement 161 will have on its combined financial statements.

In July 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* – a replacement of FASB SFAS No. 162” (the “Codification”). Other than resolving certain minor inconsistencies in current United States Generally Accepted Accounting Principles (“GAAP”), the Codification does not change GAAP, but is intended to make it easier to find and research GAAP applicable to particular transactions or specific accounting issues. The Codification will be the single source of authoritative nongovernmental U.S. GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009. The Organization does not believe the adoption of the Codification will have a material impact on the Organization’s combined financial statements.

**Reclassifications:** Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

### 2. Investments

Investments consisted of the following at June 30:

|  | 2009                 |                      |                     |                      |
|--|----------------------|----------------------|---------------------|----------------------|
|  | Board<br>Designated  | Restricted           | HUD Reserves        | Total                |
| Certificates of deposit and cash                               | \$ 1,138,374         | \$ 3,347,752         | \$ 1,932,912        | \$ 6,419,039         |
| Mutual funds   | 4,915,686            | 5,358,178            | –                   | 10,273,864           |
| United States Government obligations<br>and money market funds | 3,194,700            | 4,458,609            | 895,707             | 8,549,015            |
| Corporate bonds  | 3,881,512            | 4,230,911            | –                   | 8,112,423            |
| Common stocks  | 10,159,773           | 11,074,318           | –                   | 21,234,092           |
|  | <u>\$ 23,290,046</u> | <u>\$ 28,469,768</u> | <u>\$ 2,828,619</u> | <u>\$ 54,588,433</u> |

Associated Catholic Charities, Inc. and Affiliated Organizations

Notes to Combined Financial Statements (continued)

**2. Investments (continued)**

|  | 2008                 |                      |                     |                      |
|--|----------------------|----------------------|---------------------|----------------------|
|  | Board<br>Designated  | Restricted           | HUD<br>Reserves     | Total                |
| Certificates of deposit and cash                               | \$ 2,840,514         | \$ 2,194,308         | \$ —                | \$ 5,034,822         |
| Mutual funds   | 4,897,134            | 3,783,057            | —                   | 8,680,191            |
| United States Government obligations<br>and money market funds | 4,237,645            | 5,427,249            | 2,787,882           | 12,452,776           |
| Corporate bonds  | 4,218,959            | 3,259,163            | —                   | 7,478,122            |
| Common stocks  | 13,956,647           | 10,781,566           | —                   | 24,738,213           |
|  | <u>\$ 30,150,899</u> | <u>\$ 25,445,343</u> | <u>\$ 2,787,882</u> | <u>\$ 58,384,124</u> |

The cost of investments at June 30, 2009 and 2008 was \$56,545,347 and \$56,619,730, respectively.

**3. Land, Buildings and Equipment**

Land, buildings and equipment consisted of the following at June 30:

|   | 2009                  | 2008                  |
|---|-----------------------|-----------------------|
| Land and improvements                             | \$ 17,762,427         | \$ 11,962,731         |
| Buildings   | 192,062,951           | 183,773,417           |
| Equipment   | 19,478,153            | 18,747,978            |
|   | <u>229,303,531</u>    | <u>214,484,126</u>    |
| Less allowances for depreciation and amortization | (74,224,669)          | (69,110,209)          |
| Net book value                                    | <u>\$ 155,078,862</u> | <u>\$ 145,373,917</u> |

**4. Notes Payable**

Notes payable consist of two bank lines of credit which provide for unsecured borrowings up to \$10 million each. Borrowings under one of the bank lines bears interest, payable monthly, at 125 basis points over the 30 day LIBOR effective April 10, 2009. Prior to that date, the interest rate on this line was 70 basis points over the 30 day LIBOR. The interest rate on the other line of credit is 85 basis points over the 30 day LIBOR, payable monthly. Outstanding balances on these lines of credit, which are payable on demand totaled \$5,988,603 and \$3,415,203 at June 30, 2009 and 2008, respectively. Interest paid in 2009 was \$90,474 of which \$61,105 was expensed and \$29,369 was capitalized. Interest paid in 2008 was \$174,759, of which \$159,007 was expensed and \$15,752 was capitalized. The lines of credit provide for the right of offset against amounts on deposit with the bank.

Associated Catholic Charities, Inc. and Affiliated Organizations

Notes to Combined Financial Statements (continued)

**4. Notes Payable (continued)**

Borrowing capacity under one of the bank lines also provides for the issuance of irrevocable letters of credit. At June 30, 2009, \$970,104 of letters of credit were issued to secure certain HUD and other development projects. The letters of credit have expiration dates through September 2011.

**5. Mortgages and Bonds Payable**

Mortgages and bonds payable consisted of the following at June 30:

|                              | <b>2009</b>           | <b>2008</b>           |
|------------------------------|-----------------------|-----------------------|
| HUD 202 Projects             | \$ 92,013,806         | \$ 85,371,174         |
| Jenkins Memorial MEDCO Bonds | 3,075,000             | 3,290,000             |
| ACC MEDCO Bonds              | 14,050,000            | 14,735,000            |
| Other mortgages              | 15,403,952            | 14,699,425            |
|                              | <u>\$ 124,542,758</u> | <u>\$ 118,095,599</u> |

Associated Catholic Charities, Inc. and Affiliated Organizations

Notes to Combined Financial Statements (continued)

**5. Mortgages and Bonds Payable (continued)**

The HUD 202 Projects mortgages consisted of the following at June 30:

|   | <u>2009</u>          | <u>2008</u>          |
|---|----------------------|----------------------|
| Various mortgages payable to HUD bearing interest at fixed rates ranging from 7.625% to 9.25%. These mortgages require monthly principal and interest payments of approximately \$160,000 with the installment on the final mortgage due in 2032. All of the property and equipment of the HUD 202 Projects is subject to lien under the mortgage agreements.   | \$15,757,326         | \$16,263,094         |
| Mortgages payable to HUD for capital advances used to assist in financing rental housing projects. These mortgages bear no interest and repayment is not required so long as the housing remains available to eligible elderly and disabled households for a period of 40 years, after which the mortgage shall be deemed to be paid and discharged. Upon default however, the entire principal sum and interest per annum at a rate ranging from 4.75% to 8.375% shall become due and payable.   | 68,624,385           | 63,064,392           |
| Various mortgages payable to the Community Development Administration (CDA), a division of Housing and Community Development of the State of Maryland, Baltimore County, Harford County, and Arundel Community Development Services, bearing interest at fixed rates ranging from 0% to 4.5%. Upon default however, the interest rate on certain of these mortgages will increase to 8%. These mortgages are subordinated to the related mortgages payable to HUD. The mortgage principal and accrued interest payable is due on the same day as the last monthly installment due on the related HUD mortgages or, in the case of capital advances, after 40 years. Also includes advances from Maryland Affordable Housing Trust and Federal Home Loan Bank. These advances bear no interest and repayment is not required as long as the project remains available to very low-income seniors for 15 years. | 7,632,095            | 6,043,688            |
|   | <u>\$ 92,013,806</u> | <u>\$ 85,371,174</u> |

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements (continued)

### 5. Mortgages and Bonds Payable (continued)

**Jenkins Memorial MEDCO Bonds:** In 1998, St. Elizabeth's issued variable rate demand/fixed rate refunding revenue bonds through the Maryland Economic Development Corporation (the MEDCO Bonds) in the amount of \$5,440,000.

The MEDCO Bonds bear interest, payable monthly, at a variable rate as determined by the remarketing agent (generally approximating the SIFMA Municipal Swap Index.) In fiscal 2009, the variable interest rate ranged from .30% to 7.96%. In fiscal 2008, the variable interest rate ranged from 1.16% to 4.06%. The MEDCO Bonds are due in annual principal installments beginning in 1999 of \$215,000 and increasing to \$220,000 in fiscal year 2011 with the final principal payment in fiscal 2023. The MEDCO Bonds are secured by an irrevocable letter of credit with a bank in the amount of \$3,125,410, which expires October 15, 2011. The MEDCO Bonds indenture requires that St. Elizabeth's satisfy certain measures of financial performance as long as the bonds are outstanding.

**ACC MEDCO Bonds:** Catholic Charities has three variable rate/demand bond issues outstanding through the Maryland Economic Development Corporation (ACC MEDCO Bonds). The proceeds were used to finance and refinance various projects.

The terms of the ACC MEDCO Bonds are as follows:

| Issue Date | Amount of Issue | Maturity Date | Balance Outstanding |              | Annual Principal Payments   |
|------------|-----------------|---------------|---------------------|--------------|---|
|            |                 |               | June 30 2009        | June 30 2008 |   |
| Aug 1999   | \$5,055,000     | Aug 2024      | \$3,205,000         | \$3,410,000  | \$205,000   |
| Aug 2002   | \$5,540,000     | Aug 2022      | \$3,890,000         | \$4,165,000  | \$275,000 through fiscal 2022;<br>\$315,000 in fiscal 2023                                    |
| Oct 2004   | \$7,735,000     | Oct 2029      | \$6,955,000         | \$7,160,000  | \$200,000 in fiscal 2008 increasing each year until final payment of \$485,000 in fiscal 2030 |

The bonds bear interest, payable monthly, at a variable rate as determined by the remarketing agent (generally approximating the SIFMA Municipal Swap Index). The variable interest rate ranged from .26% to 7.96% and 1.16% to 4.06% in fiscal 2009 and 2008, respectively.

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements (continued)

### 5. Mortgages and Bonds Payable (continued)

The ACC MEDCO Bonds are secured by four separate irrevocable letters of credit with a bank in amounts totaling \$14,194,052. Catholic Charities must satisfy certain measures of financial performance as long as the bonds are outstanding.

To protect against the interest rate risk associated with the variable rate ACC MEDCO Bonds, Catholic Charities has entered into three interest rate swap agreements with a bank in the aggregate notional amount of \$10,868,000 with maturity dates ranging from April 2011 to January 2019. Under the swap agreements, the Organization pays fixed interest rates ranging from 2.37% to 3.67% and receives variable interest payments based on the Bond Market Association Index rate. The aggregate fair value of the swap agreements at June 30, 2009 and June 30, 2008 were \$9,513 and \$(134,971), respectively. It is management's intent to hold the swap agreements until maturity, at which time the fair value will be zero and all previously recorded gains or losses will have reversed.

**Other Mortgages:** Other mortgages consisted of the following at June 30:

|  | 2009                 | 2008                 |
|--|----------------------|----------------------|
| Various mortgages payable to HUD, the Department of Housing and Community Development of the State of Maryland, Baltimore City, and various banks for renovating/purchasing facilities used to provide care to developmentally disabled clients, for renovating/constructing congregate housing/assisted living facilities for the frail elderly, for renovating a single room occupancy site for homeless men with disabilities, for construction of an employment center, for renovating a community shopping center and for constructing senior housing facilities. Monthly principal and interest payments are approximately \$27,000 for terms of 30 to 40 years with fixed interest rates ranging from 1% to 7.875%. | \$ 14,495,326        | \$ 13,674,387        |
| Mayor and City Council of Baltimore Loan/Grant is a non-interest bearing indemnity mortgage for a term of 15 years. Proceeds were used for the renovation of the Cherry Hill Town Center. An annual payment of \$65,325 is forgiven every year as long as no event of default occurs.  | 321,750              | 387,075              |
| Seller financed mortgage bearing imputed interest at 8% for a term of 20 years requiring annual principal and interest payments of \$102,125. Proceeds were used for the purchase of Cherry Hill Town Center.  | 586,876              | 637,963              |
|  | <u>\$ 15,403,952</u> | <u>\$ 14,699,425</u> |

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements (continued)

### 5. Mortgages and Bonds Payable (continued)

The aggregate amount of future principal payments and deferred interest on all of Catholic Charities' mortgages and bonds payable at June 30, 2009 is as follows:

|             |                       |
|-------------|-----------------------|
| Fiscal Year |                       |
| 2010        | \$ 1,712,283          |
| 2011        | 1,816,651             |
| 2012        | 1,919,866             |
| 2013        | 2,006,650             |
| 2014        | 2,105,086             |
| Thereafter  | 114,982,222           |
|             | <u>\$ 124,542,758</u> |

Catholic Charities and affiliated organizations paid interest related to these borrowings of approximately \$2,100,000 in fiscal year 2009 and \$2,500,000 in fiscal year 2008.

### 6. Fair Value Disclosures

Statement 157 establishes a three-tier fair value hierarchy, which categorizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

In accordance with Statement 157, the following table represents the Organization's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of June 30, 2009:

|   | Level 1              | Level 2              | Level 3             | Total                |
|---|----------------------|----------------------|---------------------|----------------------|
| Cash and cash equivalents                                   | \$ 7,880,645         | \$ —                 | \$ —                | \$ 7,880,645         |
| Investments:  |                      |                      |                     |                      |
| Certificates of deposit and cash                            | 6,419,039            | —                    | —                   | 6,419,039            |
| Mutual funds  | 10,273,864           | —                    | —                   | 10,273,864           |
| United States Government obligations and money market funds | 2,381,706            | 6,167,309            | —                   | 8,549,015            |
| Corporate bonds   | —                    | 8,112,423            | —                   | 8,112,423            |
| Common stocks   | 21,234,092           | —                    | —                   | 21,234,092           |
| Total fair value of investments                             | 40,308,701           | 14,279,732           | —                   | 54,588,433           |
| Interest rate swaps   | —                    | 9,513                | —                   | 9,513                |
| Pledges receivable  | —                    | —                    | 3,124,499           | 3,124,499            |
| Total fair value of financial assets                        | <u>\$ 48,189,346</u> | <u>\$ 14,289,245</u> | <u>\$ 3,124,499</u> | <u>\$ 65,603,090</u> |

## Associated Catholic Charities, Inc. and Affiliated Organizations

### Notes to Combined Financial Statements (continued)

#### 6. Fair Value Disclosures (continued)

It is not practicable to estimate the fair value of mortgages and bonds payable at June 30, 2009. Substantially all such debt is due to governmental agencies that establish terms of the debt based on social and charitable objectives, and Catholic Charities' ability to refinance this debt is limited or restricted by certain of those agencies.

The Organization's Level 2 assets consist of corporate debt securities, government-sponsored debt securities, and interest rate swaps, which do not have directly observable quoted prices in active markets. Debt securities are valued using matrix pricing which is an acceptable practical expedient for inputs under Statement 157, while interest rate swaps are valued based on the Bond Market Association Index rates.

Catholic Charities' Level 3 assets consist of pledges receivable.

#### Pledges Receivable

As more fully disclosed in Note 1, unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

The following table presents the Organization's Level 3 assets, measured at fair value on a recurring basis using significant unobservable inputs as defined in Statement 157, as of June 30, 2009:

|   | <u>Pledges</u>      |
|---|---------------------|
| Balance at June 30, 2008                    | \$ 5,687,041        |
| Unrealized/realized loss included in income | —                   |
| Purchases, issuances and settlements        | <u>(2,562,542)</u>  |
| Balance at June 30, 2009                    | <u>\$ 3,124,499</u> |

#### 7. Endowments

Catholic Charities' endowment funds consist of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. The endowments were established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Catholic Charities has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, Catholic Charities classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the applicable donor gift instrument

## Associated Catholic Charities, Inc. and Affiliated Organizations

### Notes to Combined Financial Statements (continued)

#### 7. Endowments (continued)

at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, Catholic Charities considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the funds
- 2) The purposes of Catholic Charities and the donor-restricted endowment funds
- 3) General economic conditions
- 4) The possible effects of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of Catholic Charities
- 7) The investment policies of Catholic Charities

Catholic Charities has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Catholic Charities must hold in perpetuity or for a donor-specified period as well as board-designated funds.

To maximize investment performance, endowment assets are pooled with other Catholic Charities' investable funds, and are invested in accordance with the Organization's investment policy. The investment policy objectives include the long-term preservation of real purchasing power of the endowment assets, net of inflation and investment management costs, sufficient to fund the annual spending requirements discussed below, while limiting exposure to risk of loss. To satisfy its long-term return objectives, Catholic Charities relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Catholic Charities targets a diversified asset allocation to achieve its long-term objective within prudent risk constraints.

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements (continued)

### 7. Endowments (continued)

Catholic Charities annually appropriates a portion of its endowment funds for expenditure in the upcoming fiscal year. The amount appropriated is generally 5% of the estimated current year balance of funds designated or restricted for such purposes. The computed value may be adjusted for large contributions, withdrawals or market value swings as necessary to produce the desired level of cash. In all cases, appropriated amounts are subject to the intent of donors expressed in the gift instruments and the prudent spending requirements of MUPMIFA. In this way, the annual dollar amount available for spending is known at the beginning of each fiscal year. Such annual amounts are generally transferred to Catholic Charities' operating cash account in equal monthly installments.

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2009:

|                                  | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
|----------------------------------|-------------------|---------------------------|---------------------------|----------------------|
| Donor-restricted endowment funds | \$ (48,742)       | \$ 21,478,856             | \$ 2,550,547              | \$ 23,980,661        |
| Board-designated endowment funds | 545,410           | —                         | —                         | 545,410              |
| Total Funds                      | <u>\$ 496,668</u> | <u>\$ 21,478,856</u>      | <u>\$ 2,550,547</u>       | <u>\$ 24,526,071</u> |

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2009:

|  | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
|--|-------------------|---------------------------|---------------------------|----------------------|
| Net assets beginning of the year                     | \$ 681,103        | \$ 18,987,176             | \$ 2,550,547              | \$ 22,218,826        |
| Investment return:                                   |                   |                           |                           |                      |
| Investment income                                    | 21,673            | 520,833                   | —                         | 542,506              |
| Net depreciation (realized and<br>unrealized)        | (144,100)         | (2,491,707)               | —                         | (2,635,807)          |
| Total Investment return                              | <u>(122,427)</u>  | <u>(1,970,874)</u>        | <u>—</u>                  | <u>(2,093,301)</u>   |
| Contributions  | —                 | 5,248,866                 | —                         | 5,248,866            |
| Appropriation of endowment assets<br>for expenditure | (62,008)          | (786,312)                 | —                         | (848,320)            |
| Total Funds  | <u>\$ 496,668</u> | <u>\$ 21,478,856</u>      | <u>\$ 2,550,547</u>       | <u>\$ 24,526,071</u> |

Associated Catholic Charities, Inc. and Affiliated Organizations

Notes to Combined Financial Statements (continued)

**7. Endowments (continued)**

**Endowment Net Asset Composition by Type of Fund as of June 30, 2008:**

|                                  | <b>Unrestricted</b> | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>         |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Donor-restricted endowment funds | \$ (18,897)         | \$ 18,987,176                     | \$ 2,550,547                      | \$ 21,518,826        |
| Board-designated endowment funds | 700,000             | —                                 | —                                 | 700,000              |
| Total Funds                      | <u>\$ 681,103</u>   | <u>\$ 18,987,176</u>              | <u>\$ 2,550,547</u>               | <u>\$ 22,218,826</u> |

**Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2008:**

|  | <b>Unrestricted</b> | <b>Temporarily<br/>Restricted</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>         |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Net assets beginning of the year                     | \$ 700,000          | \$ 20,274,956                     | \$ 2,050,547                      | \$ 23,025,503        |
| Investment return:                                   |                     |                                   |                                   |                      |
| Investment income                                    | 4,449               | 581,409                           | —                                 | 585,858              |
| Net depreciation (realized and<br>unrealized)        | (23,346)            | (2,169,751)                       | —                                 | (2,193,097)          |
| Total Investment return                              | <u>(18,897)</u>     | <u>(1,588,342)</u>                | <u>—</u>                          | <u>(1,607,239)</u>   |
| Contributions  | —                   | 1,273,288                         | 500,000                           | 1,773,288            |
| Appropriation of endowment assets<br>for expenditure | —                   | (972,726)                         | —                                 | (972,726)            |
| Net assets, end of year                              | <u>\$ 681,103</u>   | <u>\$ 18,987,176</u>              | <u>\$ 2,550,547</u>               | <u>\$ 22,218,826</u> |

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor or MUPMIFA requires Catholic Charities to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Organization. There were no significant deficiencies of this nature as of June 30, 2009 or June 30, 2008.

## Associated Catholic Charities, Inc. and Affiliated Organizations

### Notes to Combined Financial Statements (continued)

#### **8. Temporarily Restricted Net Assets**

At June 30, 2009 and 2008, temporarily restricted net assets are maintained for the following donor restricted purposes:

The Children's Fund is used to fund expenditures associated with the capital improvements and general maintenance and upkeep of Villa Maria, St. Vincent's Child Care Center, Francis X. Gallagher Services and any other services for children that may be established by Catholic Charities in the future. At June 30, 2009 and 2008, the net assets of the Children's Fund were \$5,247,541 and \$6,164,174, respectively.

Other donor restricted net assets totaling \$24,359,347 at June 30, 2009 and \$28,660,663 at June 30, 2008, are maintained in pooled investment funds, individual investment accounts or the general fund for capital campaign initiatives and the operation of various Catholic Charities programs including Villa Maria, St. Vincent's Child Care Center, Francis X. Gallagher Services, Caritas House, Our Daily Bread, St. Elizabeth's, Christopher Place and Esperanza Center.

Donor restrictions expire when the stipulated purpose for which the resource was restricted has been fulfilled. The expiration of donor imposed restrictions on a donation is recognized in the period in which the restriction expires and at that time, the related resources are reclassified to unrestricted net assets.

#### **9. Permanently Restricted Net Assets**

Catholic Charities maintains two trusts on behalf of donors whereby the corpus of the trust is permanently restricted under the terms of the trust indenture. One of these trusts restricts certain earnings to the Children's Fund use. The other trust designated Catholic Charities as an income beneficiary (unrestricted as to use) and a remainderman, should the trust be dissolved. Catholic Charities also received permanently restricted funds in the amount of \$2,000,000 for the benefit of Caritas House, and in the amount of \$550,547 for the benefit of Our Daily Bread and Catholic Charities. The principal of these gifts shall not be spent.

#### **10. Pension Plan**

Certain lay employees of Catholic Charities participate in a noncontributory pension plan with other affiliated organizations of the Archdiocese of Baltimore (*Archdiocese*). Pension expense is allocated by the Archdiocese to the organizations participating in the plan based on the ratio of the projected benefit obligation (PBO) associated with employees of the Organization to the aggregate PBO associated with all employees participating in the plan. The PBO is the actuarial present value of all benefits attributed by the plan's benefit formula to employee service rendered prior to that date, assuming that the plan continues in effect and that estimated future events (including compensation increases, turnover, and mortality) occur. Pension expense of the lay employees of Catholic Charities covered by this plan amounted to approximately \$4,000,000 for 2009 and \$3,500,000 for 2008.

# Associated Catholic Charities, Inc. and Affiliated Organizations

## Notes to Combined Financial Statements (continued)

### 11. Leases

Catholic Charities has entered into commitments to lease certain office and program space. The lease terms expire at various dates through June 2017. The following is a schedule by year of future minimum lease payments required under the operating leases that have remaining lease terms in excess of one year as of June 30, 2009:

| Fiscal Year |                     |
|-------------|---------------------|
| 2010        | \$ 1,482,066        |
| 2011        | 1,404,245           |
| 2012        | 991,291             |
| 2013        | 438,985             |
| 2014        | 230,268             |
| Thereafter  | 623,885             |
|             | <u>\$ 5,170,740</u> |

The minimum rentals above do not include additional payments for insurance, property taxes, and maintenance costs that may be due as provided for in the lease agreements. Rent expense for the years ended June 30, 2009 and June 30, 2008 was approximately \$1,600,000 and \$1,400,000, respectively.

Catholic Charities leases office space from the Archdiocese of Baltimore. Rent paid to the Archdiocese was approximately \$100,000 in each of fiscal years 2009 and 2008.

### 12. Legal Proceedings

Catholic Charities is engaged in various legal proceedings arising out of and incidental to its businesses. To date, after reviewing developments with legal counsel, management is of the opinion that these legal proceedings will not have a material adverse effect on the financial position of Catholic Charities.

## **Other Financial Data**

Associated Catholic Charities, Inc. and Affiliated Organizations

The Children's Fund Inc.

Statements of Financial Position

|   | June 30,            |                     |
|---|---------------------|---------------------|
|   | 2009                | 2008                |
| <b>ASSETS</b>   |                     |                     |
| Cash and short-term investments   | \$ 384,006          | \$ 472,053          |
| Investments, at fair value<br>(cost:2009 - \$5,927,385; 2008 - \$6,268,661) | 4,790,934           | 5,657,052           |
| Receivable from Affiliate   | 72,601              | 35,069              |
| <b>Total Assets</b>   | <b>\$ 5,247,541</b> | <b>\$ 6,164,174</b> |
| <b>NET ASSETS</b>   |                     |                     |
| Temporarily Restricted Net Assets   | 5,247,541           | 6,164,174           |
| <b>Total Net Assets</b>   | <b>\$ 5,247,541</b> | <b>\$ 6,164,174</b> |

Statements of Activities

|  | Year Ended June 30, |                     |
|--|---------------------|---------------------|
|  | 2009                | 2008                |
| <b>Temporarily restricted net assets</b>                       |                     |                     |
| Realized (Loss)/Income on investments                          | \$ (176,036)        | \$ 231,834          |
| Unrealized (loss) on investments                               | (612,889)           | (694,671)           |
| Releases from restrictions                                     | (127,708)           | (186,830)           |
|  | (916,633)           | (649,667)           |
| Temporarily restricted net assets at the beginning of the year | 6,164,174           | 6,813,841           |
| Temporarily restricted net assets at the end of the year       | <b>\$ 5,247,541</b> | <b>\$ 6,164,174</b> |

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